



0000015280

## BEFORE THE ARIZONA CORPORATION COMMISSION

21  
CD

MARC SPITZER  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
JEFF HATCH-MILLER  
Commissioner  
MIKE GLEASON  
Commissioner  
KRISTIN K. MAYES  
Commissioner

Arizona Corporation Commission

DOCKETED

JAN - 4 2005

DOCKETED BY

nr

IN THE MATTER OF THE APPLICATION  
OF SOUTHWEST GAS CORPORATION  
FOR APPROVAL OF A TEMPORARY  
PURCHASED GAS ADJUSTOR  
SURCHARGE

DOCKET NO. G-01551A-04-0818

DECISION NO. 67458ORDER

Open Meeting  
December 14 and 15, 2004  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On November 15, 2004, Southwest filed for Commission approval of a temporary purchased gas adjustor ("PGA") surcharge due to high natural gas prices. Southwest's application indicates that it is seeking approval of a \$0.04254 per therm PGA surcharge for implementation prior to the winter heating season.

3. Southwest's application does not request a specific period of time for the PGA surcharge to be in effect, but based upon discussions with Southwest, it is Staff's understanding that Southwest is contemplating the PGA surcharge be in effect for a 12 month period.

...

...

1           4.     If the Commission were to approve the proposed PGA surcharge, Southwest  
2 anticipates the PGA surcharge being applied to customer bills beginning with the January 2005  
3 billing cycle, which begins approximately at the beginning of January 2005.

4           5.     Southwest has a trigger on its PGA bank balance such that if the bank balance  
5 exceeds \$22.4 million, either undercollected or overcollected, Southwest must meet with Staff to  
6 discuss the matter or file with the Commission to address the balance. As of the end of October  
7 2004, Southwest's PGA bank balance was undercollected by \$3,458,414. Southwest projects that  
8 the undercollected PGA bank balance will increase to slightly over \$20 million by the end of  
9 December 2004 and continue to increase further throughout 2005.

10          6.     In anticipation of this sizable increase in the PGA bank balance undercollection,  
11 Southwest has filed for the proposed PGA surcharge. Southwest's proposed PGA surcharge of  
12 \$0.04254 per therm is designed to recover an amount equal to the \$22.4 million trigger level over a  
13 12 month period.

14          7.     Southwest projects that even with implementation of the \$0.04254 per therm PGA  
15 surcharge, the PGA bank balance will increase significantly throughout 2005.

16          8.     While there is some variation in natural gas consumption by Southwest's customers  
17 from year to year, the main variable in projecting PGA bank balance levels in the future is the  
18 price of natural gas.

19          9.     Southwest has hedged the price for approximately half of its natural gas supplies for  
20 the winter 2004-2005 season and to a lesser extent further in the future. The gas supplies hedged  
21 by Southwest are generally in the \$0.52 to \$0.53 per therm range for the 2004-2005 winter heating  
22 season, with estimated spot market purchases priced somewhat higher than that. But Southwest  
23 cost of gas is at risk of market fluctuations for the portion of its gas supply portfolio which is not  
24 hedged. Southwest estimates that its month to month average commodity cost of gas will range  
25 between approximately \$0.56 and \$0.64 per therm through the fall of 2005.

26          10.    In addition to the commodity cost, the interstate pipeline service costs are  
27 considered in the total cost of gas.

28    ...

1           11.     There is significant uncertainty regarding what actual natural gas market prices will  
2 be in the 2004-2005 heating season. Some factors, such as high gas storage levels would seem to  
3 point to a relatively mildly priced winter, but other factors, such as high oil prices and a tight  
4 supply-demand balance, would seem to point to higher prices, with the weather as always playing  
5 an important part in the direction natural gas prices go.

6           12.     Southwest has included a message on its Arizona bills, beginning on approximately  
7 November 18, 2004, notifying customers of its request for the PGA surcharge. Southwest has also  
8 issued a press release regarding the proposed PGA surcharge and has worked with media outlets to  
9 have coverage of the request and the likelihood of higher natural gas prices in general.

10          13.     High and volatile natural gas prices in recent years have resulted in the Commission  
11 facing a number of PGA surcharge filings in recent years. While Southwest's proposed PGA  
12 surcharge is relatively small in comparison to most of the PGA surcharges which have been  
13 approved in recent years, the impact of the proposed PGA surcharge in the larger context of  
14 overall Southwest customer bills must be considered.

15          14.     While Southwest's margin rates have been consistent through 2004, Southwest's  
16 monthly PGA rate has gradually increased through 2004. In January 2004, the monthly PGA rate  
17 was \$0.09681 per therm. The monthly PGA rate has increased to \$0.16373 for December 2004,  
18 the last month for which the actual monthly PGA rate is known. Southwest estimates the monthly  
19 PGA rate will increase to \$0.18756 per therm in January 2005, almost a ten cent per therm  
20 increase over the January 2004 level.

21          15.     While the monthly PGA rate would not reach the \$0.10 per therm band on the  
22 monthly PGA rate in January 2005 according to Southwest's estimate, it will be very close to the  
23 band. The cumulative month by month shift in the monthly PGA rate through 2004 is actually  
24 over twice as large as the per therm PGA surcharge being requested by Southwest in this  
25 application.

26     ...

27     ...

28     ...

1           16. Looking at the overall gas cost being reflected in customer rates, it was at \$0.46715  
2 per therm in January 2004. In January 2005, the overall gas cost reflected in customer rates is  
3 projected to increase to \$0.55790 per therm in January 2005 absent the PGA surcharge and to  
4 increase further through 2005.

5           17. The resulting average total residential customer bill, not including taxes and  
6 regulatory assessments, at the 69 therm consumption level would have been \$72.18 in January  
7 2004. The average bill is estimated to be \$78.44 in January 2005 absent the proposed PGA  
8 surcharge, and is estimated to be \$81.38 in January 2005 if the proposed PGA surcharge were  
9 implemented.

10          18. The January 2005 estimated average residential customer bill would be 8.7 percent  
11 higher than the January 2004 bill, absent the proposed PGA surcharge. The January 2005  
12 estimated average residential customer bill would be 12.7 percent higher than the January 2004 bill  
13 when including the proposed PGA surcharge in the estimated January 2005 bill. The net effect of  
14 the proposed PGA surcharge would be approximately a 3.7 percent increase in an average  
15 customer bill in January 2005.

16          19. In a recent UNS Gas PGA surcharge case, the Commission implemented a circuit-  
17 breaker mechanism to try to provide some price relief to high usage customers. However, the  
18 PGA surcharge being proposed by Southwest is small enough on a per therm basis that a circuit-  
19 breaker mechanism such as was in place with UNS Gas is unlikely to provide substantial relief to  
20 customers other than the very highest usage customers.

21          20. Southwest's activities in hedging a portion of its natural gas supplies in recent years  
22 have reduced customer exposure to natural gas price fluctuations and higher prices, but there is  
23 still substantial exposure to changing market conditions. Further hedging by Southwest could  
24 reduce the overall volatility of its natural gas supply portfolio, but typically hedged supplies carry  
25 some level of price premium which would be reflected in overall natural gas costs.

26          21. Nationally, natural gas consumers are experiencing significantly higher bills as  
27 natural gas prices have trended upward in recent years. It is difficult to balance the goal of  
28 customer price stability with providing the company a reasonable and timely opportunity to

1 recover its natural gas costs when natural gas market conditions have been very unstable and  
2 trending upward in recent years.

3 22. Implementation of the PGA surcharge in January 2005 would subject Southwest's  
4 customers to an additional price increase in addition to the price increase reflected in the  
5 movement of the monthly PGA rate. On the other hand, if a PGA surcharge is not implemented,  
6 there is a risk that Southwest's PGA bank balance could further increase and leave a larger PGA  
7 bank balance to deal with at a later point in time.

8 23. Staff believes that further time is necessary to consider the ramifications of  
9 Southwest's PGA surcharge filing and to review options for dealing with the impacts of price  
10 volatility on Southwest's customers.

11 24. Staff has recommended that the filing be suspended for sixty (60) days.

12 25. Based upon the discussion at the December 14, 2004 Open Meeting, we believe that  
13 a PGA surcharge of \$0.02 per therm should be approved, effective January 1, 2005. The PGA  
14 surcharge should terminate upon a change in Southwest's rates resulting from a general rate  
15 proceeding, unless otherwise ordered by the Commission.

16 26. Southwest should undertake, no later than the January 2005 billing cycle, further  
17 customer education efforts including providing customers with an additional bill stuffer, discussing  
18 the PGA surcharge and resulting customer rates; higher natural gas market prices; and Southwest's  
19 and the Commission's efforts to address the high and volatile natural gas prices.

20 27. Staff and Southwest should report back to the Commission at the February 8 and 9,  
21 2005 Open Meeting regarding the status of the PGA bank balance, natural gas market conditions,  
22 and other relevant issues.

#### 23 CONCLUSIONS OF LAW

24 1. Southwest is an Arizona public service corporation within the meaning of Article  
25 XV, Section 2, of the Arizona Constitution.

26 2. The Commission has jurisdiction over Southwest and over the subject matter of the  
27 application.

28 ...

1           3.       The Commission, having reviewed the application and Staff's Memorandum dated  
2 November 30, 2004, concludes that it is in the public interest to approve a PGA surcharge of \$0.02  
3 per therm, subject to the conditions discussed herein.

4                               ORDER

5           IT IS THEREFORE ORDERED that a PGA surcharge of \$0.02 per therm is hereby  
6 approved, effective January 1, 2005.

7           IT IS FURTHER ORDERED that the \$0.02 per therm PGA surcharge terminate upon a  
8 change in Southwest's rates resulting from a general rate proceeding, unless otherwise ordered by  
9 the Commission.

10          IT IS FURTHER ORDERED that Southwest shall undertake, no later than the January  
11 2005 billing cycle, further customer education efforts including providing customers with an  
12 additional bill stuffer, discussing the PGA surcharge and resulting customer rates; higher natural  
13 gas market prices; and Southwest's and the Commission's efforts to address the high and volatile  
14 natural gas prices.

15 ...

16 ...

17 ...

18 ...

19 ...

20 ...

21 ...

22 ...

23 ...

24 ...

25 ...

26 ...

27 ...



28 ...

1 IT IS FURTHER ORDERED that Staff and Southwest should report back to the  
2 Commission at the February 8 and 9, 2005 Open Meeting regarding the status of the PGA bank  
3 balance, natural gas market conditions, and other relevant issues.

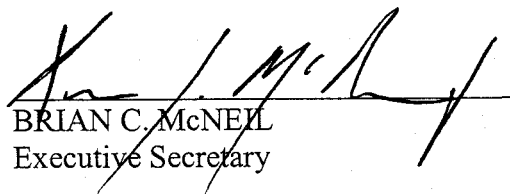
4 IT IS FURTHER ORDERED that this Order shall become effective immediately.

5  
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7  
8    
9 CHAIRMAN COMMISSIONER COMMISSIONER

10  
11    
12 COMMISSIONER COMMISSIONER

13 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive  
14 Secretary of the Arizona Corporation Commission, have  
15 hereunto, set my hand and caused the official seal of this  
16 Commission to be affixed at the Capitol, in the City of  
17 Phoenix, this 4<sup>th</sup> day of Jan., 2005 *Ky*

18   
19 BRIAN C. McNEIL  
20 Executive Secretary

21 DISSENT: \_\_\_\_\_

22  
23 DISSENT: \_\_\_\_\_

24 EGJ:BGG:lhv/JG  
25  
26  
27  
28

1 SERVICE LIST FOR: Southwest Gas Corporation  
2 DOCKET NO. G-01551A-04-0818

3 Mr. Randall W. Sable  
4 Manager, State Regulatory Affairs  
5 Southwest Gas Corporation  
6 5241 Spring Mountain Road  
7 P.O. Box 98510  
8 Las Vegas, Nevada 89193-8510

9 Mr. Ernest G. Johnson  
10 Director, Utilities Division  
11 Arizona Corporation Commission  
12 1200 West Washington  
13 Phoenix, Arizona 85007

14 Mr. Christopher C. Kempley  
15 Chief Counsel  
16 Arizona Corporation Commission  
17 1200 West Washington  
18 Phoenix, Arizona 85007  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28